

A nonprofit organization formed for the purpose of establishing and maintaining a system for the storage and distribution of water in order to increase underground water levels in a community is exempt from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization whose function is to improve the water supply of a community is exempt from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was formed as a nonprofit corporation for the purpose of establishing and maintaining a system for the storage and distribution of water in order to raise the underground water levels of a community. Membership in the organization is available to any water user in the community who agrees to pay an assessment based upon the number of gallons of water pumped from the user's private well. Such payments constitute the organization's only source of income. However, the increase in the level of the underground water table which results from the organization's activities benefits all residents of the community whose wells are supplied by the raised water table, regardless of whether they are members and regardless of whether they pay anything to the organization. Memberships and assessments are obtained by the organization on a voluntary basis.

Section 501(c)(4) of the Code provides, in part, for the exemption of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. See section 1.501(c)(4)-1 of the Income Tax Regulations.

By attempting to raise the underground water level, the organization is operating for the benefit of the entire community. Accordingly, the organization is exempt from tax under section 501(c)(4) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(4) of the Code, file an application on Form 1024, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.